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Results through Regionalism

March 21, 2022

Testimony Regarding

Raised Bill 443

An Act Concerning the Tax Incidence Report, Tax Incidence Analyses and the Disclosure of Returns and Return Information

Made Before the

Finance, Revenue and Bonding Committee

Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman and honorable members of the Finance, Revenue & Bonding Committee, my name is John Filchak. I am the Executive Director of the Northeastern Connecticut Council of Governments (NECCOG). NECCOG is one of nine regional councils of governments in our state and has 16 member towns - each represented by their respective chief-elected official. I am here today to offer our **support** and provide suggestions for improvements to Raised Bill 443, An Act Concerning the Tax Incidence Report, Tax Incidence Analyses and the Disclosure of Returns and Return Information.

Tax incidence studies provide policymakers with the information to understand comprehensively "... how proposed changes in their tax laws would affect the amount of taxes owed by different income groups in their populations or how total tax obligations are distributed across income groups at a particular point in time."¹ Without this type of analysis states are limited to an understanding of "...determining how much proposed tax cuts will cost or tax increases will raise [and]... estimating the total amount of revenue that will be generated by their current tax structure."² Recently, the Department of Revenue Services released Connecticut's second ever tax incidence study (<https://portal.ct.gov/-/media/DRS/Tax-Incidence/Connecticut-Tax-Incidence-Study-TY2019.pdf>), which you were briefed on by DRS.

The recently released report confirms the disparities shown in the 2014 report - providing a very valuable resource. Notably and although in accordance with current law, the new tax incidence study does not address, as the 2014 study did: the the gross earnings tax, insurance tax, estate and gift tax and the insurance tax.

The Commissioner noted in his briefing on the new tax incidence study that Minnesota is the "gold standard" for tax incidence studies (https://www.revenue.state.mn.us/sites/default/files/2021-03/2021%20Tax%20Incidence%20Study_0.pdf). Their approach is one that Connecticut should emulate and learn from as a means to garner the most information possible on our tax system and its impacts. Raised Bill 443 would move our state strongly in that direction. The following is the table of contents from the most recent 152 page Minnesota tax incidence study. This provides a good picture of the scope of their work and approach.

¹ Developing the Capacity to Analyze the Distributional Impact of State and Local Taxes Issues and Options for States by Michael Mazerov, Center on Budget and Policy Priorities, January 2002, page 7 - https://www.researchgate.net/publication/228130036_Developing_the_Capacity_to_Analyze_the_Distributional_Impact_of_State_and_Local_Tax

² IBID, Page 7.

2021 Minnesota Tax Incidence Study

Executive Summary

Chapter 1: Overview of Study

Minnesota State and Local Tax Collections
The Concept of Tax Incidence
Step 1 – Impact
Step 2 – Shifting
Step 3 – Allocation to Specific Households
Tax Progressivity and the Suits Index
Effective Tax Rates by Decile
Effective Tax Rates in the 1st Decile
Historical Comparison with Earlier Studies

Chapter 2: Principal Results, 2018

Total Tax Burden
Taxes by Population Decile
Overall Effective Tax Rates
State Taxes Compared to Local Taxes
Business Taxes Compared to Taxes on Individuals
Summary of 2018 Tax Burden by Major Tax Type
Individual Income Tax
Residential Property Taxes (After PTR)
Nonresidential Property Taxes
State and Local Sales Taxes
Other Taxes
Representative Households
Minnesota's Diversified Tax Portfolio in 2018

Chapter 3: Projected Results, 2023

Tax Incidence Projections to 2023 (Assuming Current Law)
Total Tax Burdens in 2023
Taxes by Population Decile
Overall Effective Tax Rates
State Taxes Compared to Local Taxes
Business Taxes Compared to Taxes on Individuals
Summary of 2023 Tax Burden by Major Tax Type
Individual Income Tax
Residential Property Taxes (After PTR)
Nonresidential Property Taxes
State and Local Sales Taxes
Other Taxes
Summary of the Impact of Law Changes Between 2018 and 2023
Minnesota's Diversified Tax Portfolio in 2023

Chapter 4: Additional Results

Section A – An Alternative Presentation: Income Deciles
Section B – An Alternative Methodology: Adjusting for the Federal Tax Offset
Section C – The Impact of Refundable Income Tax Credits and Property Tax Refunds
Section D – Incremental Incidence: Estimating the Incidence of a Change in Business Taxes
Section E – Tax Incidence in Other States

Chapter 5: Demographic Variation

Household Types by Population Decile.
Average Tax Burdens by Household Type
Housing Status by Population Decile
Incidence Households Compared to Census Households

Appendix A – The Incidence Study Database

Measurement of Household Income
Definition of Income.
Components of Household Income in 2018
Income Not Included in Incidence Study Income
Comparison to Personal Income
Accounting Period
Definition of a Household

Appendix B – The Incidence Analysis

Introduction
Taxes on Households
Taxes on Income or Wealth
Taxes on Consumer Purchases
Property Taxes on Non-Business Property
Adjustment for Burdens on Nonresident Households
Taxes on Business
Introduction
Conceptual Structure
Allocation of Business Taxes
Allocation of Business Taxes: An Example
Allocating the Burden Among Capital, Consumers, and Labor
Allocating the Burden Between Minnesota Residents and Nonresidents
Taxes on Intermediate Business Inputs
Property Taxes on Land
Business Tax Allocators
Incremental vs. "Average" Incidence

Appendix C – The Suits Index

Appendix D – Tax Incidence by Type of Tax (2018)

We suggest the following to improve the outcome of future tax incidence studies:

- Line 8 - add, after the words "business tax": "[gross earnings tax, insurance tax, estate and gift tax and the insurance tax](#)" and on line 9 before the word "property" add "[local](#)"
- Line 14 - Add the following at the beginning of the section: "[for the overall income distribution, using a systemwide incidence measure such as the Suits index or other appropriate measures of equality and inequality](#); (from the Minnesota law)
- After line 21, add new language: "[\(D\) The incidence analyses shall use the broadest measure of economic income for which reliable data is available.](#)" (from the Minnesota law)

Section 2 is very close to the current Minnesota law and would be a good addition to our law. We do not know if it is possible, but adding a geographic tax incidence analysis by COG region and for urban, suburban and rural places would add - in our view - to the value of these studies. Connecticut has enough variation in our state to warrant such examinations to more fully understand the impacts of our tax policies.

Finally, the Department of Revenue Services made five recommendations (pages 40 and 41) going forward to improve future tax incidence studies. Each of these, in our view, are important and should be incorporated into this legislation.

Thank you for your consideration of our testimony. Should you have any questions, please do not hesitate to contact me.

John Filchak
Executive Director
john.filchak@neccog.org
860-774-1253, ext. 14